

Executive Summary

This report provides a review and evaluation of Kentucky's economy as well as the General Fund and Road Fund for the third quarter of Fiscal Year 2005 (FY05). General Fund receipts totaled \$1,780.3 million in the third quarter, an increase of 9.4 percent from the third quarter of FY04. This represents \$153.1 million more than reported in the same period of FY04.

Road Fund receipts in the third quarter of FY05 were \$285.1 million, an increase of 3.1 percent from the third quarter of FY04. This is \$8.5 million more than reported in the same period of FY04.

The third quarter of FY05 saw the national economy continue to register solid gains. Real gross domestic product (GDP) expanded at an annual rate of 4.1 percent in the third quarter. Personal income, a measure of spending power, likewise rose by 5.8 percent from one year earlier. Nonagricultural employment growth has begun to accelerate in recent months, rising 1.7 percent on an annualized basis.

Kentucky's personal income was estimated at \$117.5 billion in the third quarter of FY05, representing an increase of 4.9 percent from one year ago.

Nonagricultural employment in the Commonwealth rose by 0.7 percent when compared to the previous year, with a gain of 13,200 jobs. Manufacturing, which had been experiencing job losses, halted this trend by rising 0.1 percent. Overall employment in the services sector was up by 1.0 percent chiefly due to rises in business services.

General Fund receipts in the third quarter were boosted by gains in several of the largest revenue sources. Performance by major tax or revenue category is detailed in Table 3 on page 9. Among the major accounts, the sales and use tax grew by 8.2

percent compared to the third quarter of FY04.

The individual income tax rose by 16.5 percent, and the combined corporation income and license taxes grew by 23.1 percent.

The coal severance tax has recently been rising sharply, and this trend continued in the third quarter with receipts up by 25.4 percent. Property taxes were down 3.4

percent due to timing differences, and the lottery fell by 34.0 percent. All other taxes in the General Fund combined for a growth of 7.4 percent.

The Road Fund posted an increase in the third quarter of FY05, rising 3.1 percent with total revenues of \$285.1 million. Summary data on third-quarter Road Fund



receipts appears in Table 4 on page 10. During the third quarter, motor fuels taxes rose by 8.5 percent, primarily as a consequence of the statutorily-mandated increase in the motor fuels tax rate. The motor vehicle usage tax declined by 3.4 percent, and the weight distance tax grew by 4.0 percent. All other revenue sources in the Road Fund combined for a growth of 4.7 percent in the third quarter.

The national economic outlook for the final fiscal quarter of FY05 is for GDP to grow by 3.9 percent. In Kentucky, personal income should grow by 5.4 percent in the April-June 2005 period, compared to 5.9 percent nationally. For the first two quarters of FY06, GDP is expected to rise by 3.5 percent, and Kentucky personal income should rise by 5.0 percent.

The interim outlook for the General Fund is for revenues to grow by 7.6 percent in the fourth quarter of FY05. The improving economy is expected to allow growth to continue at a similar rate to the first three quarters.

Sales tax revenues should rise 6.4 percent in the final quarter of FY05, and individual income taxes are expected to grow 1.5 percent. Corporation income and license taxes are forecasted to rise by a

combined 38.2 percent, while property taxes will decline by 3.7 percent. The lottery should rise by 7.4 percent despite increased competition from the Tennessee lottery, but “other” taxes and revenues will decline primarily due to lower inheritance tax revenues.

The interim General Fund forecast for the first half of FY06 anticipates a growth rate of 6.9 percent over the prior year. Principal drivers of the growth include the corporation income tax, the sales and use tax, and the cigarette tax.

The interim forecast for the Road Fund is for an increase of 2.0 percent in the fourth quarter of the fiscal year. The interim forecast for the Road Fund is summarized on Table 6.

Motor fuels taxes are expected to grow by 7.8 percent, mainly due to a continuation on the one-cent rate increase tied to the wholesale price of motor fuels. Motor vehicle usage tax revenues should fall by 6.1 percent in the remaining quarter of the fiscal year, and weight distance taxes should expand by 5.9 percent. License and privilege (excluding the weight distance tax) are expected to fall by 0.6 percent. For the first two quarters of FY06, the Road Fund is projected to rise by 4.9 percent over the first half of FY05.

The Economy

NATIONAL ECONOMY

Third Quarter, FY05

High energy prices and increasing interest rates have put somewhat of a damper on the general economic outlook. However, in the short term the impact has been slight as both output and employment increased steadily during the January to March 2005 period.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by a robust 4.1 percent in the third quarter. This is a continuation of the strong economic growth that was established a year ago.

The strength of the domestic economy is derived from the American consumer. Consumption expenditures account for about two-thirds of real GDP. Real consumption was up 3.6 percent during the third quarter following an increase of 3.8 percent in the previous quarter. The consumption of durable goods was up strongly by 4.7 percent, even though expenditures on motor vehicles grew by a slim 1.2 percent. The biggest factor in durable consumption growth was

the sale of furniture because the housing market has remained strong. Consumption of nondurable goods was up 4.4 percent. Over the last year, nondurable consumption has grown steadily at about this rate. Surprisingly, the growth in consumption was in the areas of food, clothing, and drugs—gasoline consumption was actually down 0.8 percent in real terms. The strong growth in food consumption (up 5.7 percent) was probably a secondary effect from the rise in fuel prices and the associated increase in transportation costs. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 3.0 percent in the third quarter, compared to 2.5 percent a year ago. Most of the increase came from the area of personal and business services.



Investment spending continues to improve and indicates that the economic recovery is here to stay. Total investment comprises close to a fifth of real GDP and is usually sensitive to both interest rates and future expansion opportunities. The investment component of GDP increased by 11.1 percent during the third quarter after having posted robust growth of 11.6 percent in the previous quarter. Investment in equipment and software continued to show robust growth and was up 15.1 percent.

Government spending constitutes 17 percent of GDP and was up just 1.7 percent. The state and local government component was up just 0.7 percent primarily as a result of revenue constraints. In spite of the weak dollar, imports grew by 9.5 percent while exports were up 5.9 percent. This seeming contradiction in economic theory is due to the surge in oil prices. Though oil prices have risen sharply it is difficult to reduce the demand for imported oil in the short run.

GOEA monitors industrial production because it is a measure of the output of heavy industries like mining and manufacturing. These industries continue to play a vital role in Kentucky's economy. Industrial production is a raw measure of output, comprised of only the final products. Total industrial production was up 4.7 percent during the third quarter compared to 5.6 percent a year ago. It seems that the markets have adjusted to the weakness of the dollar with respect to the yen and the euro, and the boost in industrial production experienced a year ago has faded. All major areas of production were up with the exception of textile mills and apparel. The University of Michigan Consumer Sentiment index for the third quarter was at 91.9 compared to 93.3 a year ago. This is tied directly to the spike in oil prices. During the period January to March 2005 oil prices averaged \$50.80 per barrel compared to \$38.30 a year ago.

Personal income, which is a measure of spending power, was \$9,996.6 billion in the third quarter, 5.8 percent higher than a year ago. Real disposable income was up 3.3 percent. The picture is much rosier when compared to the same quarter a year

ago. The increase in crude oil prices during the third quarter has caused inflation to rise by 3.0 percent compared to a year ago. However, when compared to the same quarter a year ago inflation during the January to March 2005 period was up 3.0 percent.

The unemployment rate dropped slightly from 5.4 percent in the second quarter to 5.3 percent in the third quarter. Nonfarm employment posted a strong gain of 1.7 percent during the third quarter. The largest gains were in construction and business services, and the only decline was in the information sector.

STATE ECONOMY

The long recession that had dragged down Kentucky's employment seems to be over. Employment has not returned to March 2000 levels, but there has been positive movement in the economy in response to the federal fiscal and monetary stimulus. During the third quarter key measures like employment and income firmed up, indicating that Kentucky is on a steady path to recovery.

Kentucky's personal income is estimated to be \$117.5 billion in the third quarter of FY05, an increase of 4.9 percent from a year ago. U.S. personal income grew by 5.8 percent during the same period. Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to have grown by just 4.6 percent in FY05:3, compared to 5.6 percent nationally.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability

and its impact on consumer spending and confidence. Kentucky gained approximately 13,200 jobs during the third quarter compared to a year ago. This growth of 0.7 percent is less than half the 1.7 percent growth in national employment during the same period.

Manufacturing jobs in Kentucky have been the hardest hit by the recession. During the third quarter manufacturing employment increased by just 0.1 percent for a net gain of 300 jobs. Nationally, manufacturing employment increased by 0.2 percent during the same period. Among the large industries the hardest hit in Kentucky were electronic and electrical equipment, and fabricated metal productions. Both these sectors have suffered nationally, too, as jobs have moved overseas. The automotive sector had been posting strong gains in the past, but the rapid rise in crude oil prices have had a severe impact on the market for

passenger vehicles like the Ford Explorer manufactured in Louisville. According to quarterly statements filed by Ford, sales of the Explorer were down 25 percent during the quarter. Employment in motor vehicle manufacturing was down 2.3 percent.

A little over one-third of Kentucky's nonagricultural jobs are in the services sector. The broad service-related industries are part of four newly categorized areas or super sectors, these are: business services, educational and health services, leisure and hospitality services, and other services. Overall employment in services was up 1.0 percent with the strongest gains in business services. The business service category is dominated by temporary employment services, and it is possible that the strong growth in this sector reflects a reluctance of businesses to hire permanent employees.

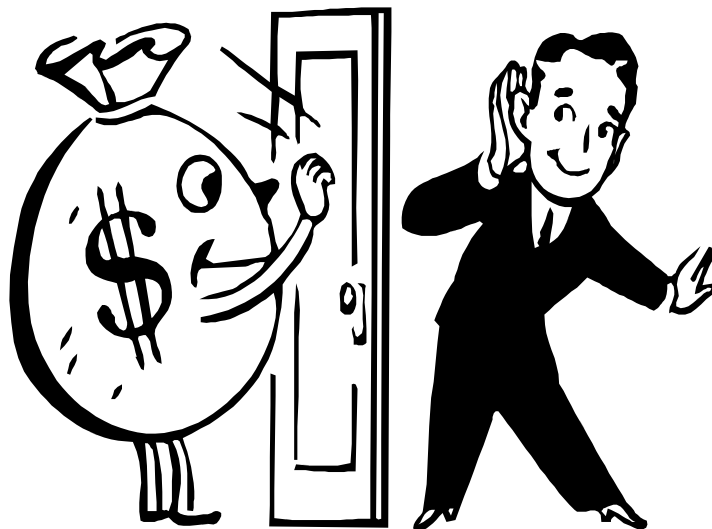


Table 1
National Economic Indicators
Third Quarter, FY05

	FY04:3	FY05:2	FY05:3	SAAR** FY05:2 to FY05:3	FY04:3 to FY05:3 Percent Change
Real GDP (billion 2000 \$)	10,698.0	10,994.0	11,105.0	4.1	3.8
Personal Income (billion \$)	9,445.0	9,953.8	9,996.6	1.7	5.8
Real Disposable Income (billion 2000 \$)	7,897.0	8,170.9	8,154.2	-0.8	3.3
Consumer Price Index (index 1982-84=100)	186.6	191.0	192.2	2.4	3.0
Industrial Production (annual percent change)	5.6	4.4	4.7	-	-
Civilian Labor Force (millions)	146.7	148.1	148.1	-0.1	1.0
Total Nonagricultural Employment (millions)	130.5	132.3	132.8	1.4	1.7
Manufacturing Employment (millions)	14.3	14.3	14.3	-0.7	0.2
Unemployment Rate (percent)	5.7	5.4	5.3	-	-

Sources: Global Insight, Inc., and U.S. Dept. of Commerce, Bureau of Economic Analysis.

* Data for FY05:3 are April 2005 estimates and cover the period January to March 2005.

** Seasonally adjusted annual percent growth rate.

Table 2
Selected Kentucky Economic Indicators
Seasonally Adjusted Data

	FY04:3	FY05:3	Percent* Change
Total Personal Income (\$ millions)	111,946	117,471	4.9%
Wage & Salary Income (\$ millions)	60,583	63,352	4.6%
Total Nonagricultural Employment (thou)	1,791.2	1,804.4	0.7%
Contract Construcion	83.6	85.9	2.7%
Mining	19.1	19.8	3.8%
Manufacturing	264.5	264.8	0.1%
Trade, Transportation & Utilities	371.7	372.7	0.3%
Information	28.9	28.2	-2.2%
Finance	87.4	85.4	-2.3%
Business Services	158.6	164.5	3.7%
Educational and Health Services	229.4	232.2	1.2%
Leisure and Hospitality Services	159.8	163.8	2.5%
Other Services	77.8	78.3	0.6%
Government	310.3	308.8	-0.5%

* Seasonally adjusted rate from a year ago.

Source: GOEA's Macromodel of Kentucky, April 2005.

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Revenue Receipts

Third Quarter FY2005

General Fund

The third quarter of FY05 posted a 9.4 percent increase over the third quarter of FY04, continuing the strong growth seen in the previous two quarters of FY05. Receipts in the third quarter totaled \$1,780.3 million compared to \$1,627.2 million received in the third quarter of FY04. Sales tax collections performed stronger in this quarter than in several consecutive past quarters, as did the individual income tax.

Collections in the major revenue categories are shown in summary form in Table 3. Detailed information on these and other accounts is available in the Appendix.

Total sales and use tax receipts for the quarter were \$647.8 million, compared to \$598.6 million in the third quarter of FY04. The result is an increase of 8.2 percent, which is an improvement over recent quarters.

The individual income tax posted receipts of \$660.2 million, compared to last year's third-quarter receipts of \$566.5 million. This is a gain of 16.5 percent, and was the result of declaration and withholding payments that were significantly higher than last year, as well as fewer refunds paid.

Corporation income tax receipts posted revenues of \$40.4 million, and compare to year-earlier receipts of \$32.8 million. The 23.1 percent increase in receipts were the result of a reduction in refunds paid compared to the prior year.

Property tax receipts fell 3.4 percent compared to the third quarter a year ago.

FY05 third-quarter receipts of \$130.0 million compare with \$134.7 million from the same period of FY04. As usual, there were some timing differences within the property tax accounts which account for the decrease in this quarter.

The coal severance tax continued to post strong growth with an increase of 25.4 percent for the quarter. Collections of \$43.7 million compare to the FY04 third-quarter total of \$34.9 million.

Lottery receipts were \$33.0 million, \$17 million less than last year's third-quarter total. Excessive payouts in its Pick 3 games as well as lower sales due to the new Tennessee lottery have depressed operating margins for the Kentucky Lottery Corporation.

The "all other" category, which represents the remaining accounts of the General Fund, increased by 7.4 percent in the third quarter on the strength of

Type Tax	FY05	FY04	Percent Change
Sales and Use	647.8	598.6	8.2
Individual Income	660.2	566.5	16.5
Corporation Inc.	40.4	32.8	23.1
Coal Severance	43.7	34.9	25.4
Property	130.0	134.7	-3.4
Lottery	33.0	50.0	-34.0
All Other	<u>225.2</u>	<u>209.6</u>	<u>7.4</u>
TOTAL	1,780.3	1,627.2	9.4

corporation license tax, bank franchise tax, and inheritance tax receipts. Third-quarter receipts for FY05 were \$225.2 million and compare to \$209.6 million in FY04.

Road Fund

The Road Fund reported a 3.1 percent increase in the third quarter of FY05, following reductions in each of the first two quarters. Receipts totaled \$285.1 million and compare to \$276.6 million from the third quarter of last year. Summary data are contained in Table 4 and detailed data are shown in the Appendix.

Motor fuels tax receipts increased at a rate of 8.5 percent during the third quarter. Receipts were \$115.3 million and compare to \$106.3 million collected during the third quarter of last year. Revenues increased due to the statutory one cent increase in the tax rate.

Motor vehicle usage tax revenues fell in the third quarter, following drops in each of the first two quarters of the fiscal year.



The 3.4 percent decrease was smaller than in the two prior quarters. Receipts during the third quarter of FY05 totaled \$100.3 million and compare to \$103.8 million collected during the same period last year.

Weight distance tax receipts of \$20.8 million represent a 4.0 percent increase over receipts of \$20.0 million during the third quarter of FY04.

The remainder of the accounts in the Road Fund combined for an increase of 4.7 percent from a year earlier chiefly due to an increase in motor vehicle licenses. In the "all other" category revenues of \$48.7 million were up from \$46.5 million in the third quarter of FY04.

Table 4
Summary Road Fund Receipts
Third Quarter, FY 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY05</u>	<u>FY04</u>	<u>Percent Change</u>
Motor Fuels	115.3	106.3	8.5
Motor Vehicle Usage	100.3	103.8	-3.4
Weight Distance	20.8	20.0	4.0
All Other	<u>48.7</u>	<u>46.5</u>	<u>4.7</u>
TOTAL	285.1	276.6	3.1

Economic and Revenue Outlook

Final Quarter of FY2005 & First & Second Quarters of FY2006

ECONOMIC OUTLOOK

The economic outlook presented here is for the three-quarter period from April to December 2005. In terms of fiscal years this period is the final quarter of FY05 (April to June 2005) and the first half of FY06. The national outlook is based on Global Insight's April 2005 forecast, and the Kentucky outlook is from GOEA's April 2005 forecast.

National Economy

During the final quarter of FY05 the economy is expected to continue to expand at about the same pace as the January to March quarter. Almost all indicators are strongly positive. Real GDP is forecasted to increase by 3.9 percent. Other factors like investment, productivity, and consumer confidence show robust growth. Employment had been slow to gain momentum during the first two years of this recovery cycle. However, with increased demand, nonagricultural employment is expected to be up by 1.7 percent during the final quarter.

In the first half of FY06 real GDP growth is expected to moderate due to soaring oil prices which are expected to average \$51 per barrel. Real GDP is expected to increase by 3.5 percent compared to 4.0 percent for the same period a year ago. In spite of rising oil prices the delayed impact of both monetary policy in the form of lower interest rates last year and fiscal

policy in the form of tax cuts from last year seems to have primed the economy enough so that it can now grow at its long-term growth rate of between 3 percent to 4 percent. Employment in nonagricultural industries is forecasted to rise by 1.7 percent during the first half of FY06 compared to 1.5 percent a year ago.

The consumption component of GDP has recently been the major factor in sustaining growth. During the last quarter of FY05 real consumption expenditures are projected to increase by 3.9 percent with durable goods rising by 5.0 percent. A year ago durable goods consumption was up a robust 5.4 percent. Consumption growth during the first half of FY06 is expected to be 3.1 percent compared to 3.7 percent last year. The slower growth is related to moderation in the durable goods market and the impact of high oil prices.

Investment spending has been accelerating in recent months, and the outlook is for a continuation of that trend. During the fourth quarter of FY05 investment is expected to rise by 7.5 percent and then moderate to a growth rate of 5.7 percent in the first half of FY06.

The weak dollar is expected to cause a surge in exports and at the same time put a damper on imports. The trade-

weighted exchange rate is forecasted to slip by 4.9 percent during the final quarter of FY05 and drop by another 7.5 percent in the first half of FY06. U.S. exports are forecasted to show gains of 6.0 percent in FY05:4, and then 7.3 percent in the first half of FY06. The corresponding import numbers are 6.3 percent and 5.6 percent.

The first three years of the upturn in the business cycle had been characterized as either a “jobless recovery” or a “job loss recovery.” Recently, however, the tide has turned and employment is on the rise. The unemployment rate is expected to slide to 5.1 percent during the fourth quarter compared to 5.6 percent a year ago. It is predicted to go down to 5.0 percent in the first half of FY06 compared to 5.4 percent in the same period a year ago. Similarly, nonfarm employment is expanding. Job gains are expected to be 1.5 percent in FY05:4, and further improve to 1.7 percent during the first half of FY06 with a net gain of 2.2 million jobs.

State Economy

Kentucky’s economy is also in the recovery phase. The dominance of the goods-producing sector in the state economy had slowed the recovery. In the final quarter of FY05 personal income is estimated to increase by 5.4 percent compared to a 5.9 percent increase nationally. During the first half of FY06 personal income is expected to be up 5.0 percent, but the national average is forecasted to grow much faster at 5.5 percent. The lower growth in Kentucky is due primarily to the employment mix, and the relatively slow gains in manufacturing wages.



During the first three quarters of FY05 total nonagricultural employment in Kentucky increased by 0.8 percent. In the same period a year ago employment had been flat. A combination of factors are expected to push employment growth to 1.7 percent in the final quarter of the year, followed by stronger growth of 2.1 percent growth in the first half of FY06. These factors are related to the decline in the U.S. dollar, the rise in coal production, and increased construction activity.

Employment in goods-producing industries had declined dramatically in Kentucky in response to productivity gains and the shift of some manufacturing facilities abroad. However, the lower dollar and increased consumer demand are expected to result in gains in the next three quarters. During the fourth quarter of FY05 employment in the goods-producing sector is expected to be up 2.4 percent. Then, during the first half of FY06, as manufacturing recovers, employment in the goods producing sector is expected to be up 3.1 percent.

Service-providing industries are forecasted to do well during the fourth quarter of FY05 with an addition of 17,100 jobs. The growth rate during the first half of FY06 is expected to be 1.9 percent.

REVENUE OUTLOOK

General Fund

Projected General Fund revenues for the next three quarters are shown in Table 5 on page 15. General Fund revenues were \$5,503.9 million in the first three quarters of FY05, a growth rate of 8.3 percent from

the same period a year ago. Revenues grew strongly primarily due to improved economic performance as most major categories of revenues saw gains. However, growth was strongest in the volatile corporation income and license taxes as well as coal severance taxes. It is expected that the corporation income and license tax will continue to grow rapidly in the final quarter of FY05, although coal severance tax revenue growth should moderate.

Anticipated revenues for the last quarter of FY05 are \$2,042.0 million, corresponding to a growth rate of 7.6 percent from the previous fiscal year. Growth is expected to be positive in all major accounts except for the property tax and “other” revenues. This forecast is \$96.0 million higher than the official forecast for FY05 as enacted by the 2005 General Assembly. Revenues in the upcoming forecast period will be significantly affected by the passage of HB 272, which reformed and modernized Kentucky’s tax structure.

Total sales and use tax receipts for the first three quarters of FY05 were \$1,935.0 million, representing an increase of 6.0 percent from the same period one year ago. The projected rate of growth for the remaining quarter of FY05 is 6.4 percent. Total sales and use tax receipts for FY05 are estimated to be \$2,597.5 million.

The interim forecast for the individual income tax calls for a growth of 1.5 percent for the remainder of FY05, amounting to collections of \$838.8 million in the final three months. The individual income tax rose by 8.7 percent in the first three quarters of FY05. Growth in the final quarter is expected to be muted due to HB

272 that expanded the low-income credit, created a 5.8 percent tax bracket for incomes between \$8,000 and \$75,000, and shifted some individual income tax payments to the corporation income tax. For the entire fiscal year, individual income tax receipts are projected to grow by 6.6 percent.

The outlook for corporation income and license taxes projects an increase of 38.2 percent in the final quarter of FY05, representing collections of \$267.2 million. These anticipated collections will bring the FY05 total to \$589.3 million, an increase of 37.9 percent from FY04. Revenues in FY05 for the corporate license tax will be reduced by an expected \$24.4 million that was due to the *Illinois Tool Works* court decision; that decision was effectively overturned by HB 272.

The coal severance tax recently reversed its long-term trend of decline and has risen sharply throughout the fiscal year. The forecast is for the increases to moderate for the remainder of FY05, and growth is forecasted to cool to 6.8 percent for the remaining quarter. Overall for the fiscal year, coal severance tax receipts are expected to rise by 19.8 percent.

Property tax revenues totaled \$421.6 million in the first nine months of FY05, representing an increase of 5.4 percent. It is expected that the final quarter of FY05 will yield total property tax revenues of \$46.8 million, for a drop of 3.7 percent from the previous year. Projected declines are the result of timing differences, and growth for the entire fiscal year should average 4.4 percent.

Lottery revenues fell by 9.8 percent in the first nine months of FY05 as the Lottery

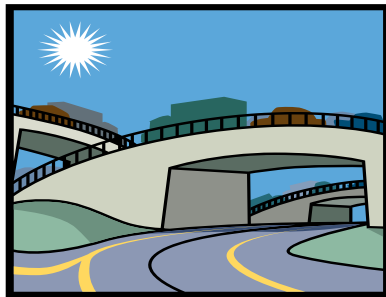
Corporation experienced losses in several of its Pick-3 games, and the impact of the newly-created Tennessee lottery continued to depress sales in Kentucky's southern counties. In the next quarter, lottery revenues are expected to rise by 7.4 percent. For the entire fiscal year, lottery receipts should fall by 5.8 percent.

The "other" category contains estimates for several of the smaller revenue sources not otherwise classified. The final quarter of FY05 should experience a decline in this category by 3.8 percent due primarily to expected decreases in inheritance tax revenue.

In the first half of FY06, General Fund revenues are expected to rise by 6.9 percent. Sales and use taxes should grow by 6.0 percent, while the individual income tax is projected to fall by 7.0 percent due to the impact of HB 272. A forecasted increase in corporate income and license tax receipts is also based on HB 272 impacts. The major driver of net General Fund growth will be the addition of the cigarette surtax, which combined with existing cigarette tax will yield an expected \$100.4 million in the first six-months of FY06.

ROAD FUND

Road Fund revenues over the remainder of FY05 are forecasted to grow by 2.0 percent as shown in Table 6 on page 16. This estimate is \$1.9 million more than the official revenue forecast as enacted by the 2005 General Assembly.



Motor fuels tax receipts are forecasted to grow by 7.8 percent in the last quarter of FY05. This is principally due to a change in gasoline prices and their effect on the statutory rate of the motor fuels tax.

Motor vehicle usage tax collections are expected to fall by 6.1 percent in the final quarter of FY05. The decrease is due primarily to decreased sales of motor vehicles resulting from higher gasoline prices and their effect on consumer purchases.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative factors. License and privilege taxes are expected to decline by 0.6 percent, and toll income likewise is estimated to continue declining. Weight distance tax revenue should rise by 5.9 percent for the remainder of FY05 due to an improving economy. Investment income is forecasted to rise rapidly from a very low base. The combined "other" accounts in the Road Fund are projected to grow by 1.4 percent in the final quarter of FY05.

In the first half of FY06, the Road Fund is projected to increase by 4.9 percent from the same period a year earlier. The increase is the result of two factors. First, the higher price of gasoline is expected to result in another increase in the motor fuels tax rate that is tied statutorily to gas prices. Second, language contained in HB 267 as passed by the 2005 General Assembly increased driver's license fees as well as shifted the collection point of the motor vehicle usage tax that will improve compliance.

Table 5

General Fund: Interim Forecast
(millions of dollars)

	FY05		FY05		Modified CFG Estimate	Difference
	Quarters 1, 2, & 3		Quarter 4			
	% Chg		% Chg			
	Actual	Year Ago	Estimate	Year Ago		
Sales & Use	1,935.0	6.0	662.5	6.4	2,597.5	6.1
Individual Income	2,140.9	8.7	838.8	1.5	2,979.7	6.6
Corporation Inc. & Lic.	322.1	37.7	267.2	38.2	589.3	37.9
Coal Severance	130.7	25.2	46.0	6.8	176.7	19.8
Cigarette Tax	11.9	-6.6	23.3	427.5	35.2	105.3
Property	421.6	5.4	46.8	-3.7	468.4	4.4
Lottery	119.8	-9.8	44.0	7.4	163.8	-5.8
Other	421.9	5.1	113.3	-3.8	535.2	3.1
GENERAL FUND	5,503.9	8.3	2,042.0	7.6	7,545.9	8.1
					2,577.4	20.1
					2,947.2	32.5
					572.0	17.3
					172.4	4.4
					16.4	18.8
					462.4	6.0
					170.5	-6.7
					531.6	3.6
					7,449.9	96.0

	FY06		Quarters 1 & 2	
	Quarters 1 & 2		% Chg	
	Estimate	Year Ago	Estimate	Year Ago
Sales & Use	1,364.0	6.0		
Individual Income	1,376.9	-7.0		
Corporation Inc. & Lic.	456.8	85.5		
Coal Severance	92.6	6.4		
Cigarette Tax	100.4	NA		
Property	296.3	1.6		
Lottery	78.4	-9.7		
Other	214.0	-9.4		
GENERAL FUND	3,979.4	6.9		

Table 6
Road Fund: Interim Forecast
(millions of dollars)

	FY05			FY05			FY05			Modified CFG Estimate	Difference
	Quarters 1, 2 & 3			Quarter 4			Full Year				
	Actual	% Chg		Interim Estimate	Year Ago	% Chg	Interim Estimate	Year Ago			
Motor Fuels & MF Use/Surtax	364.4	6.6		127.5	7.8		491.9	6.9	490.8	1.1	
Motor Vehicle Usage & Rental	302.1	-5.7		102.3	-6.1		404.4	-5.8	405.5	-1.1	
License & Privilege (excl. WD)	76.5	-3.5		33.8	-0.6		110.3	-2.6	109.1	1.2	
Weight Distance Tax/Surtax	62.4	5.2		21.5	5.9		83.9	5.4	83.5	0.4	
Toll Income	4.6	-25.8		1.7	-5.6		6.3	-21.3	6.1	0.2	
Investment	2.3	-68.9		2.2	2,100.0		4.5	-40.0	4.9	-0.4	
Other	15.3	7.6		4.9	1.4		20.2	6.0	19.8	0.4	
Road Fund	827.7	-0.1		293.9	2.0		1,121.6	0.4	1,119.7	1.9	

	FY06		
	Quarters 1 & 2		
	Estimate	Year Ago	% Chg
Motor Fuels & MF Use/Surtax	260.0		6.9
Motor Vehicle Usage & Rental	204.3		1.2
License & Privilege (excl. WD)	46.2		12.4
Weight Distance Tax/Surtax	43.2		3.8
Toll Income	3.2		3.2
Investment	1.9		11.8
Other	10.2		3.0
Road Fund	569.0	4.9	

APPENDIX
Third Quarter Receipts

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KENTUCKY STATE GOVERNMENT REVENUE GENERAL FUND REVENUE

	Third Quarter 2004 - 2005	Third Quarter 2003 - 2004	% Change	Year-To_Date 2004 - 2005	Year-To_Date 2003 - 2004	% Change
TOTAL GENERAL FUND	\$1,780,336,060	\$1,627,211,099	9.4%	\$3,723,601,370	\$3,452,905,759	7.8%
Tax Receipts	\$1,728,988,139	\$1,554,972,770	11.2%	\$3,548,740,778	\$3,297,045,119	7.6%
Sales and Gross Receipts	\$720,637,236	\$672,848,397	7.1%	\$1,373,754,417	\$1,309,513,530	4.9%
Beer Consumption	1,434,010	1,461,611	-1.9	3,289,881	3,132,643	5.0
Beer Wholesale	8,396,490	8,704,381	-3.5	19,574,916	18,905,033	3.5
Cigarette	3,959,506	4,491,438	-11.8	7,914,017	8,227,463	-3.8
Distilled Spirits Case Sales	22,939	22,339	2.7	45,362	43,585	4.1
Distilled Spirits Consumption	2,318,491	2,283,449	1.5	4,456,738	4,465,676	-0.2
Distilled Spirits Wholesale	4,559,092	4,356,561	4.6	8,787,233	8,324,867	5.6
Insurance Premium	48,953,876	49,705,396	-1.5	35,929,070	34,762,400	3.4
Pari-Mutuel	580,676	771,882	-24.8	1,402,860	750,109	87.0
Race Track Admission	8,401	3,708	126.6	154,401	188,841	-18.2
Sales and Use	647,808,281	598,570,894	8.2	1,287,202,262	1,226,196,446	5.0
Wine Consumption	540,859	523,857	3.2	1,223,942	982,315	24.6
Wine Wholesale	2,054,615	1,952,881	5.2	3,773,734	3,534,153	6.8
License and Privilege	\$153,208,433	\$127,077,937	20.6%	\$139,643,507	\$113,664,779	22.9%
Alc. Bev. License Suspension	52,251	97,950	-46.7	103,850	122,450	-15.2
Coal Severance	43,712,535	34,860,757	25.4	87,008,973	69,581,015	25.0
Corporation License	35,469,547	27,152,209	30.6	31,967,320	23,581,697	35.6
Corporation Organization	11,327	32,730	-65.4	58,344	77,173	-24.4
Occupational Licenses	23,042	82,322	-72.0	81,288	54,150	50.1
Oil Production	1,112,401	772,224	44.1	2,241,855	1,571,230	42.7
Race Track License	3,850	3,850	0.0	263,250	284,125	-7.3
Bank Franchise Tax	62,989,331	55,288,674	13.9	7,241	(454,538)	—
Driver License Fees	123,282	125,350	-1.6	271,791	256,583	5.9
Minerals Severance	2,550,206	2,314,740	10.2	7,626,179	8,242,744	-7.5
Natural Gas Severance	7,160,661	6,347,130	12.8	10,013,417	10,348,150	-3.2%
		0				
Income	\$700,571,502	\$599,267,522	16.9%	\$1,694,980,980	\$1,553,883,369	9.1%
Corporation	40,392,459	32,810,242	23.1	214,272,655	150,405,835	42.5
Individual	660,179,043	566,457,280	16.5	1,480,708,325	1,403,477,534	5.5
Property	\$130,047,952	\$134,691,676	-3.4%	\$291,591,783	\$265,451,957	9.8%
Bank Deposits	468,790	464,372	1.0	0	(279)	—
Building & Loan Association	0	24,890	-100.0	71,384	36,375	96.2
Distilled Spirits	300,490	110,967	170.8	87,769	264,670	-66.8
General - Intangible	6,181,242	5,697,673	8.5	20,298,320	21,477,621	-5.5
General - Real	58,120,454	63,298,656	-8.2	136,609,630	122,831,185	11.2
General - Tangible	41,403,127	41,372,148	0.1	86,807,551	76,958,174	12.8
Omitted & Delinquent	8,177,192	10,877,242	-24.8	11,361,580	5,817,451	95.3
Public Service	15,392,159	12,837,007	19.9	36,335,053	38,003,455	-4.4
Other	4,497	8,722	-48.4	20,497	63,304	-67.6
Inheritance	\$16,650,971	\$12,390,543	34.4%	\$31,672,876	\$36,566,560	-13.4%
Miscellaneous	\$7,872,045	\$8,696,695	-9.5%	\$17,097,216	\$17,964,923	-4.8%
Legal Process	5,672,663	6,653,789	-14.7	12,881,674	13,849,486	-7.0
T. V. A. In Lieu Payments	2,181,146	2,026,831	7.6	4,196,730	4,093,262	2.5
Other	18,236	16,076	13.4	18,813	22,175	-15.2
Nontax Receipts	\$49,531,441	\$71,963,478	-31.2%	\$172,257,253	\$148,973,899	15.6%
Departmental Fees	5,905,096	6,208,574	-4.9	11,060,044	11,141,417	-0.7
PSC Assessment Fee	3,931	(56,566)	-106.9	11,108,369	5,446,193	104.0
Fines & Forfeitures	6,204,885	6,843,295	-9.3	12,842,763	14,494,560	-11.4
Interest on Investments	196,208	244,278	-19.7	440,215	598,821	-26.5
Lottery	33,000,000	50,000,000	-34.0	86,752,000	82,800,000	4.8%
Sale of NOx Credits	356,250	2,702,225	-86.8	3,340,425	5,364,325	-37.7
Miscellaneous	3,865,072	6,021,671	-35.8	46,713,438	29,128,582	60.4
Redeposit of State Funds	\$1,816,480	\$274,850	560.9%	\$2,603,339	\$6,886,742	-62.2%

KENTUCKY STATE GOVERNMENT REVENUE ROAD FUND REVENUE

	Third Quarter 2004 - 2005	Third Quarter 2003 - 2004	% Change	Year-To_Date 2004 - 2005	Year-To_Date 2003 - 2004	% Change
TOTAL ROAD FUND	\$285,118,807	\$276,583,407	3.1%	\$542,568,469	\$551,918,494	-1.7%
Tax Receipts-	\$277,594,937	\$268,627,117	3.3%	\$527,833,716	\$531,996,155	-0.8%
Sales and Gross Receipts	\$221,392,318	\$214,548,011	3.2%	\$445,088,069	\$447,445,775	-0.5%
Motor Fuels Taxes	115,321,295	106,294,425	8.5	234,486,374	220,850,733	6.2
Motor Fuels Use & Surtax	5,671,462	4,357,202	30.2	8,586,467	9,897,977	-13.3
Truck Trip Permits (fuel)	100,065	112,280	-10.9	237,580	204,120	16.4
Motor Vehicle Usage	100,299,496	103,784,104	-3.4	201,777,648	216,492,946	-6.8
License and Privilege	\$56,202,619	\$54,079,106	3.9%	\$82,745,647	\$84,550,380	-2.1%
Motor Vehicles	29,452,845	27,134,941	8.5	31,338,262	36,733,066	-14.7
Motor Vehicle Operators	1,295,008	1,334,770	-3.0	3,031,645	2,809,168	7.9
Weight Distance	20,784,846	19,994,286	4.0	41,612,294	39,308,177	5.9
Truck Decal Fees	(580,497)	74,246	-881.9	810,472	52,511	1443.4
Other Special Fees	5,250,416	5,540,863	-5.2	5,952,974	5,647,458	5.4
Nontax Receipts	\$6,813,675	\$7,207,926	-5.5%	\$14,357,482	\$19,156,931	-25.1%
Departmental Fees	4,298,799	3,795,476	13.3	8,580,313	7,218,718	18.9
In Lieu of Traffic Fines	317,203	387,133	-18.1	694,884	766,803	-9.4
Highway Tolls	1,492,000	1,467,001	1.7	3,113,743	4,772,210	-34.8
Investment Income	601,112	1,345,372	-55.3	1,724,629	6,047,091	-71.5
Miscellaneous	104,561	212,943	-50.9	243,913	352,108	-30.7
Redeposit of State Funds	\$710,195	\$748,364	-5.1%	\$377,271	\$765,408	-50.7%